Report

of the

Examination of

Mt. Calvary Mutual Insurance Company

Mt. Calvary, Wisconsin

As of December 31, 2003

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, *Governor*
Jorge Gomez, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

May 14, 2004

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2003, of the affairs and financial condition of:

MT. CALVARY MUTUAL INSURANCE COMPANY
Mt. Calvary, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Mt. Calvary Mutual Insurance Company (the company) was made in 1999 as of December 31, 1998. The current examination covered the intervening time period ending December 31, 2003, and included a review of such subsequent transactions deemed essential to complete this examination.

The “Summary of Examination Results” contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was organized as a town mutual insurance company on February 2, 1874, under the provisions of the then existing Wisconsin Statutes. The original name of the company was The Mutual Fire Insurance Company of the Town of Marshfield. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Calumet	Dodge
Fond du Lac	Manitowoc
Sheboygan	

The company is currently licensed to write property, including windstorms and hail and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one year with premiums payable on the advance premium basis. The company charges a policy fee of $20. Installment premiums are allowed on policies with premiums over $500.

Business of the company is acquired through twenty agents, two of whom are directors of the company. Seventeen of the agents work for four agencies. Three agencies wrote 75% of the gross premiums for 2003. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
New Business	17%
Renewal Business	12%

Per the agent's agreement, agents have authority to adjust losses up to $500. Losses in excess of this amount are adjusted by members of the adjusting committee or by a professional adjuster. Adjusters receive $15 per hour and $.36 per mile for travel expenses.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors currently consists of eight members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term. The company's Articles of Incorporation require nine directors. Additional comment on this point can be found in the "Current Examination Results" section of this report.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Art Kopf	Farmer	Chilton	2004
James O'Brien *	Semi-Retired Farmer	Eden	2004
David Ludwig	Semi-Retired Farmer	Chilton	2004
Robert Koenen	Semi-Retired, Adjuster	Mt. Calvary	2005
Clarence Haensgen	Retired	Fond du Lac	2005
Mary Mihm *	Manager, Adjuster	Mt. Calvary	2005
Orlando Schneider	Retired	Mt. Calvary	2006
Alan R Simon	Farmer, Adjuster	Fond du Lac	2006

Directors who are also agents are identified with an asterisk. Members of the board currently receive $75 for each meeting attended and $.36 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2003 Salary
Alan R Simon	President	$ 3,000
Robert Koenen	Vice-President	0
Mary Mihm	Secretary/Treasurer/Manager	22,800

The secretary-treasurer in addition to a salary receives a general agent's commission of 3% of all the fire and extended coverage premiums written by the company. See additional comments on officer compensation under the section titled, "Corporate Records."

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee	Investment Committee
Robert Koenen, Chair	Alan Simon, Chair
Art Kopf	Robert Koenen
Clarence Haensgen	Mary Mihm
Alan Simon	
Mary Mihm	

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2003	$166,144	679	$66,272	$2,153,576	$1,948,749
2002	144,094	642	40,865	2,000,739	1,806,735
2001	153,979	626	(6,363)	1,984,053	1,829,588
2000	169,800	583	27,702	1,955,646	1,854,208
1999	124,045	576	34,900	1,919,548	1,822,632
1998	129,079	577	17,810	1,860,292	1,775,486

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios	
				Net	Gross
2003	$391,893	$181,968	$1,948,749	9%	20%
2002	346,790	164,643	1,806,735	9	19
2001	298,733	166,259	1,829,588	9	16
2000	273,935	165,407	1,854,208	9	15
1999	237,821	128,985	1,822,632	7	13
1998	261,925	134,147	1,775,486	8	15

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Com-posite Ratio
2003	$ 37,351	$105,310	$166,144	22%	58%	80%
2002	77,271	96,861	144,094	54	59	113
2001	152,207	88,534	153,979	99	53	152
2000	150,720	91,130	169,800	89	55	144
1999	80,779	96,709	124,045	65	75	140
1998	127,522	86,937	129,079	99	65	164

In 2003, the company reported a favorable loss ratio, as did many of the town mutual insurers. In the five years 1998 through 2002, the company experienced high loss ratios. These high loss ratios can be attributed to the widespread windstorms in 1998, and to the hail and windstorms experienced from 1999 through 2002. Although underwriting losses were experienced in four of the past five years, the company only reported a net loss in 2001.

Policies in-force increased from 577 in 1998 to 679 in 2003. Policyholders' surplus since the last examination has increased by 9.8% to $1,948,749 as of year-end 2003. The company raised rates on its homeowner's policies in January 2002. In June and July of 2003, the company raised rates on its dwelling farm fire, extended coverage and farmowner's policies in order to improve its underwriting results and offset reinsurance costs.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2003
Termination provisions:	At any January 1, by giving to the other party at least 90 days advance notice in writing.

The coverage provided under this treaty are summarized as follows:

1.	Type of contract:	Excess of Loss (Class A)
	Lines reinsured:	All casualty business written
	Company's retention:	$500 in respect to each and every loss occurrence
	Coverage:	100% in excess of $500 for each and every loss occurrence, including LAE.
	Reinsurance Premium:	75% of the company’s gross subject premium
	Deductible:	$1,000 will be imposed where a raw milk contamination occurs on an insured dairy farm. The reinsurer agrees to waive deductible if the insured dairy farm shows the company evidence of completion of the Dairy Quality Assurance Program within 12 months prior to the date of the claim.

The Company will not issue any binder or policy providing limits greater than the following:

a. $1,000,000 per occurrence, single limit, combined for bodily injury and property damage liability
b. $1,000,000 split limits, in any combination of bodily injury and property damage liability
c. $5,000 for medical payments, per person; $25,000 per accident

2.	Type of contract:	First Surplus (Class B)
	Lines reinsured:	All property business written
	Company's retention:	Retained pro-rata portion of each risk, plus 10% annual aggregate deductible on the paid losses and loss adjusting expenses.
	Coverage:	When the company's retention is $200,000 or more in respect to a risk, the company may cede on a pro-rata basis, and the reinsurer shall accept up to $800,000. When the company's retention is $200,000 or less in respect to a risk, the company may cede on a pro-rata basis, and the reinsurer shall accept up to 50% of such risk.
	Reinsurance premium:	Pro rata share of all premiums and fees charged by company corresponding to the amount of each risk ceded.
	Ceding commission:	Provisional and minimum commission of 15%. The minimum commission shall be increased by 1% for each 1% decrease in the loss ratio below 65%, subject to a maximum commission rate of 35% when the loss ratio is 45% or less.
3.	Type of contract:	Excess of Loss-First Layer (Class C-1)
	Lines reinsured:	All property business written
	Company's retention:	$25,000 each and every risk from one loss occurrence, plus an annual aggregate deductible of $25,000.
	Coverage:	100% of any loss (including LAE) in excess of $25,000 subject to limit of $75,000 per risk in respect to each and every loss occurrence.
	Reinsurance premium:	Based on experience over the past four years with load factor of 125%. Minimum rate of 7% and maximum rate of 20.2%. Current rate is 7%. Deposit premium of $18,600 payable in monthly installments.
4.	Type of contract:	Excess of Loss-Second Layer (Class C-2)
	Lines reinsured:	All property business written
	Company's retention:	$100,000 in respect to each and every loss occurrence.
	Coverage:	100% of any loss (including LAE) in excess of $100,000 subject to limit of $100,000 per risk in respect to each and every loss occurrence.
	Reinsurance premium:	4.8% of subject net premiums written. Deposit premium of $12,600 payable in monthly installments.

5. Type of contract: Aggregate Stop Loss (Class D/E)

Lines reinsured:	All business written by the company
Company's retention:	Annual aggregate losses (including LAE) equal to 80% of net premiums written.
Coverage:	100% of the company’s annual aggregate losses (including LAE) over the retention
Reinsurance premium:	Based on the experience over the past eight years with factor of 125%. Minimum rate of 6.5% and a maximum rate of 25% of net premiums written. Current rate is 15%. Deposit premium is $42,000 payable in monthly installments.

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Mt. Calvary Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2003

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash deposited in checking account	$ 24,358	$	$	$ 24,358
Cash deposited at interest	785,060			785,060
Bonds	460,897			460,897
Stocks and mutual fund investments	767,741			767,741
Real estate	11,654			11,654
Premiums, agents' balances and installments:				
In course of collection	40,156			40,156
Deferred and not yet due	40,400			40,400
Investment income accrued		12,575		12,575
Reinsurance recoverable on paid losses and lae	2,638			2,638
Electronic data processing equipment	2,518			2,518
Reinsurance premium recoverable	5,579			5,579
Totals	$2,141,001	$12,575	$0	$2,153,576

Mt. Calvary Mutual Insurance Company
Statement of Assets and Liabilities (cont.)
As of December 31, 2003
Liabilities and Surplus

Net unpaid losses	$ 15,900
Unpaid loss adjustment expenses	250
Commissions payable	10,998
Fire department dues payable	318
Federal income taxes payable	15,800
Unearned premiums	161,297
Other liabilities:	
Expense related:	
Accounts payable	264
Total Liabilities	204,827
Policyholders' surplus	1,948,749
Total Liabilities and Surplus	$2,153,576

Mt. Calvary Mutual Insurance Company
Statement of Operations
For the Year 2003

Net premiums and assessments earned		$166,114
Deduct:		
Net losses incurred	$ 31,177	
Net loss adjustment expenses incurred	6,174	
Other underwriting expenses incurred	105,310	
Total losses and expenses incurred		142,661
Net underwriting gain (loss)		23,453
Net investment income:		
Net investment income earned	46,155	
Net realized capital gains	(951)	
Total investment gain (loss)		45,204
Other income:		
Annual Policy Fees	13,415	
Total other income		13,415
Net income (loss) before federal income taxes		82,072
Federal income taxes incurred		15,800
Net Income (Loss)		$ 66,272

Mt. Calvary Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2003

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2003	**2002**	**2001**	**2000**	**1999**
Surplus, beginning of year	$1,806,735	$1,829,588	$1,854,208	$1,822,632	$1,775,486
Net income	66,272	40,865	(6,363)	27,702	34,900
Net unrealized capital gains or (losses)	75,742	(63,718)	(18,257)	2,204	12,258
Change in non-admitted assets				1,670	(11)
Other gains and (losses) in surplus:					
Rounding					(1)
Surplus, end of year	$1,948,749	$1,806,735	$1,829,588	$1,854,208	$1,822,632

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2003, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Corporate Records—It is recommended that the company file all policy forms with and have them approved by the commissioner prior to using them in order to comply with s. 612.51 (1), Wis. Stat.

   Action—Compliance

2. Corporate Records—It is recommended that the company revise its policy forms to include a provision relating to its articles of incorporation and bylaws and how to obtain additional copies and a provision relating to notice of its annual meeting in order to comply with s. Ins 13.04, Wis. Adm. Code, and ss. 612.11 (2), and 612.51 (3), Wis. Stat.

   Action—Compliance

3. Corporate Records—It is suggested that all agents who represent the company have signed agent contracts.

   Action—Compliance

4. Corporate Records—It is suggested that the Board of Directors develop a method of compensation that does not directly associate the pay of an officer with premiums written.

   Action—Noncompliance, see comments in the "Summary of Examination Results."

5. Conflict of Interest—It is recommended that the company develop and use annually a suitable conflict of interest questionnaire that allows for full disclosure of possible conflict of interests and which each director, officer, and key employe signs.

   Action—Compliance

6. Underwriting—It is suggested that the company document in the policyholder's file that the required cancellation notice has been sent to the policyholder.

   Action—Compliance

7. Accounts and Records—It is recommended that the company not backdate checks, and that accruals and that accruals for all payables at year-end be established on the annual statement.

   Action—Compliance

8. Accounts and Records—It is recommended that expenses be recorded according to the annual statement instructions for Schedule K.

   Action—Compliance

9. Accounts and Records—It is recommended that the company comply with s. Ins 6.80, Wis. Adm. Code, for the retention of records by maintaining records or the ability to reproduce records to document and support the transactions and account balances in the company's annual statement.

   Action—Compliance

10. Accounts and Records—It is recommended that the annual statement be completed in accordance with the annual statement instructions.

   Action—Compliance

11. Accounts and Records—It is recommended that the investment ledger, amortization schedules, and investment records and workpapers include the information needed to document the annual statement amounts, and that Schedule D be completed properly.

   Action—Partial compliance, see comments in the "Summary of Examination Results."

12. EDP Environment and Disaster Recovery Plan—It is recommended that the company develop and the board of directors approve a written disaster recovery plan.

   Action—Noncompliance, see comments in the "Summary of Examination Results."

13. Invested Assets—It is recommended that the company comply with s. 610.23, Wis. Stat., with respect to custody and control of its invested assets, and that securities not be held by brokerage firms.

   Actions—Noncompliance, see comments in the "Summary of Examination Results."

14. Unpaid Losses—It is recommended that the claims be entered once in the claim registers, and that the company maintain documentation on how it determined the year end unpaid loss liability, and that claim files have documentation on when a claimant was contacted and how the current estimate or settlement was determined.

   Action—Compliance

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof, were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

While reviewing the company’s minutes it was discovered that one director resigned in February of 2004. The examiners discussed with the company if a replacement has been found to fill the vacated director position. The company indicated that eight directors are currently serving as board members. The examiners reviewed the company Articles of Incorporation and under Article III it states: “The Corporation shall be managed by a board of directors consisting of nine members divided into three classes.” It is recommended that the company comply with its articles of incorporation by filling the vacancy on the board, or by amending its articles to match the current practice.

The examiners noted that the company failed to comply with the suggestion in the prior examination report regarding the payment of commissions to an officer. The Secretary/Treasurer receives a salary, and a general agent’s commission on 3% of all the fire and extended coverage premiums written by the company. Although there was no evidence that officers put their own interest before those of the company, s. 628.51, Wis. Stat., precludes officer compensation based on premium volume. It is recommended that the Board of Directors develop a method of compensation that does not directly associate the pay of an officer with the level of premiums written in compliance with s. 628,51, Wis. Stat.

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with apparent conflicts being properly disclosed. During a review of the conflict of interest questionnaires, the examiners noted that the company was unable to produce these documents for one director for the years 2002 and 2001. It is recommended that the company have all directors annually complete a conflict of interest statement in compliance with the directive of the Commissioner and the company retain such statements in its files.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	$ 95,000
Workers Compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Directors & Officers Liability:	
Each claim	1,000,000
Professional Liability:	
Each claim	5,000
Personal Liability:	
Each occurrence	500,000
Medical payments each person	1,000
Medical payments each accident	25,000

The fidelity bond was increased from $80,000 to $95,000 in March 2004 under the direction of the commissioner, to bring it into compliance with the minimum fidelity bond coverage requirements.

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company does not have a formal inspection procedure for both new and renewal business. The company's President performs a majority of the inspections, with the Vice President assisting. The examiners inquired with the company's manager regarding the number of inspections that have been performed of its approximately 700 policyholders. The manager could neither provide information nor generate a report showing the number of inspections on its new and renewal business. It is recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration and maintain records of these inspections in its files.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

The previous examination recommended that the company not back date checks, and that accruals for all payables at year end be established on the annual statement. During the examiner's review of cash, it was determined that the company was no longer back dating its checks and accrued expenses were materially correct.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2003.

The previous examination recommended that the investment ledger, amortization schedules, and investment records and workpapers include information needed to document the annual statement amounts, and that Schedule D be completed properly. It was noted during the review of the company's investment schedules that the company had complied with the prior examination recommendation by properly completing the investment ledger, amortization schedules, and investment records and workpapers which were verified by the examiners. However, Schedule D, Section 1 Part 2 column 9 of the annual statement noted five mutual funds were not rated when these were actually rated by Morningstar. It is recommended that the company properly complete Schedule D according to the annual statement instructions.

The company is audited annually by an outside public accounting firm. This firm also prepares the annual statement, along with adjusting entries.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computer is limited, as the secretary-treasurer is the only person who uses the computer. Company personnel back up the computer at least daily, and the backed-up data is kept on-site and off-site. The company has a manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building.

The previous examination noted that the company did not have a formal disaster recovery plan. The examiners discussed with the company manager if a disaster recovery plan had been written since the December 2000 board minutes mentioned putting a plan in place soon. The manager concluded that a formal disaster recovery plan has not been written. It is again recommended that the company develop and the board approve a written disaster recovery plan.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
>
> (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is not in compliance with these requirements. Two bonds are being held at brokerage firms. It is again recommended that the company comply with s. 610.23, Wis. Stat., with respect to custody and control of its invested assets, and that securities not be held by brokerage firms.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as “Type 2”) provided that the town mutual has a sufficient amount of lower risk investments (referred to as “Type 1”). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$ 504,827
2.	Liabilities plus 33% of gross premiums written	334,152
3.	Liabilities plus 50% of net premiums written	295,811
4.	Amount required (greater of 1, 2, or 3)	504,827
5.	Amount of Type 1 investments as of 12/31/2003	1,452,601
6.	Excess or (deficiency)	$ 947,774

The company has sufficient Type 1 investments.

The examiners noted that the company’s municipal bonds exceed the 10% of admitted assets limitation. It is recommended that the company comply with the investment limitations pursuant to s. Ins 6.20 (6) (d) 1, Wis. Adm. Code.

It was also noted that the company exceeded the limitation for a single family of mutual funds. The company has five mutual funds being held under American Funds family. In addition, the company has three mutual funds having a Morningstar rating lower than “4.” One of those funds, Davis Growth Opportunity Fund has been rated a “3” over the past two years. It is recommended that the company comply with the investment limitations pursuant to s. Ins 6.20 (6) (d) 3. c, Wis. Adm. Code.

ASSETS

Cash and Invested Cash **$809,418**

The above asset is comprised of the following types of cash items:

Cash deposited in banks-checking accounts	$ 24,358
Cash deposited in banks at interest	785,060
Total	$809,418

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in a local bank. Verification of checking account balances was made by obtaining confirmations directly from the depository, and reconciling the amounts shown thereon to company records.

Cash deposited in banks at interest represent the aggregate of 14 deposits in 12 depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks.

Interest received during the year 2003 totaled $39,787 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.24% to 4.21%. Accrued interest on cash deposits totaled $7,585 at year-end.

Book Value of Bonds **$460,897**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2003. Bonds owned by the company are located in at the company, at a custodian, and at a brokerage firm. Discussion of the company's custody and control of assets can be found in the "Investment Rule Compliance" section of this report.

Bonds were physically inspected by the examiners. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds, other than the custody and control issue, was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

In reviewing Schedule C of the annual statement, the examiners noted that the company holds a GNMA pass-through security which is not identified as a CMO on Schedule C. It is recommended that the company complete Schedule C according to the annual statement instructions.

Interest received during 2003 on bonds amounted to $9,928 and was traced to cash receipts records. Accrued interest of $4,990 at December 31, 2003, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$767,741**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2003. Stocks owned by the company are located in at the company, and some are maintained at several brokerage firms. Discussion of the company's custody and control of assets can be found in the "Investment Rule Compliance" section of this report.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds, other than the custody and control issue, was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers

Dividends received during 2003 on stocks and mutual funds amounted to $10,354 and were traced to cash receipts records.

Book Value of Real Estate **$11,654**

The above amount represents the company's investment in real estate as of December 31, 2003. The company's real estate holdings consisted of its home office. The building was built in 1870 and was purchased by the company in 1936. In 2002, new siding was added to the building at a cost of $5,163.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

Premiums, Agents' Balances in Course of Collection $40,156

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Premiums Deferred and Not Yet Due $40,400

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company's detailed list of deferred premiums verified the accuracy of this asset.

Investment Income Due and Accrued $12,575

Interest due and accrued on the various assets of the company at December 31, 2003, consists of the following:

Cash at Interest	$ 7,585
Bonds	4,990
Total	$12,575

Amounts were verified by recalculating amounts and tracing to cash receipts.

Reinsurance Recoverable on Paid Losses $2,638

This asset represents recoveries due to the company from reinsurance on losses which were paid on or prior to December 31, 2003. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment $2,518

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2003. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

Reinsurance Premium Recoverable $5,579

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2003. The examiners verified the balance directly with the reinsurer.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$15,900**

This liability represents losses incurred on or prior to December 31, 2003, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2003, with incurred dates in 2003 and prior years. The examiners development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$28,273	$26,358	$1,915
Less: Reinsurance recoverable on unpaid losses	12,373	12,373	0
Net Unpaid Losses	$15,900	$13,985	$1,915

The company's reserves were redundant and no adjustment was made.

The examiners review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$250**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2003, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is an estimate by the CPA using a percentage of losses based on historical data.

The examiners analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$10,998**

This liability represents the commission's payable to company agents at December 31, 2003. A review of accounting records, supporting documents, and subsequent cash disbursements verified the annual statement amount.

Fire Department Dues Payable **$318**

This liability represents the fire department dues payable at December 31, 2003. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Federal Income Taxes Payable **$15,800**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2003. The examiners reviewed the company's 2003 tax return and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

Unearned Premiums **$161,297**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology. Using ACL, the examiners reconciled the company's premium data to the annual statement. It was noted by the examiners that policy fees are charged for policies billed on a basis more frequently than annual. These fees are fully earned when collected.

Even though these fees are fully earned when collected, the company included these as part of the unearned premium and the premium in-force register. It is recommended that policy fees be separated from the unearned premium and the premium in-force register.

Accounts Payable **$264**

This liability represents bills that were payable at December 31, 2003. Supporting documents verified this amount.

V. CONCLUSION

Policyholder's surplus since the last examination has increased by $173,947 or 9.8% as of the year-end 2003. Policies in-force increased from 577 in 1998 to 679 in 2003. In 2003, company reported a favorable net loss ratio. Although the company reported underwriting losses in the previous four years, they were able to offset those losses with investment income to report net income in all years, with the exception of 2001. In 2002, the company increased rates on its homeowners policies. The company also raised rates on its dwelling, farm fire, extended coverage, and farmowners policies in 2003. The company raised rates in order to improve its underwriting results and offset its rising reinsurance costs.

The examination found that the company failed to comply with two recommendations and one suggestion from the prior examination report. The current examination report has recommendations under the headings, Corporate Records, Accounts and Records, and Investment Rule Compliance. The current examination report resulted in no adjustments to surplus.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Corporate Records—It is recommended that the company comply with its articles of incorporation by filling the vacancy on the board, or amending its articles to match the current practice.

2. Page 18 - Corporate Records—It is again suggested that the Board of Directors develop a method of compensation that does not directly associate the pay of an officer with the level of premiums written in compliance with s. 628.51, Wis. Stat.

3. Page 19 - Conflict of Interest—It is recommended that the company have all directors annually complete a conflict of interest statement in compliance with the directive of the Commissioner and the company retain such statements in its files.

4. Page 20 - Underwriting—It is recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration and maintain records of these inspections in its files.

5. Page 21 - Accounts and Records—It is recommended that the company properly complete Schedule D according to the annual statement instructions.

6. Page 22 - Disaster Recovery Plan—It is again recommended that the company develop and the board approve a written disaster recovery plan..

7. Page 22 - Invested Assets—It is again recommended that the company comply with s. 610.23, Wis. Stat., with respect to custody and control of its invested assets, and that securities not be held by brokerage firms.

8. Page 23 - Investment Rule Compliance—It is recommended that the company comply with the investment limitations pursuant to s. Ins 6.20 (6) (d) 1, Wis. Adm. Code.

9. Page 23 - Investment Rule Compliance—It is recommended that the company comply with the investment limitations pursuant to s. Ins 6.20 (6) (d) 3. c, Wis. Adm. Code.

10. Page 25 - Bonds—It is recommended that the company complete Schedule C according to the annual statement instructions.

11. Page 28 - Unearned Premiums—It is recommended that policy fees be separated from the unearned premium and the premium in-force register.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Bill Genne of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

DuWayne A Kottwitz
Examiner-in-Charge